GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:937
ANSWERED ON:29.07.2005
PRIORITY SECTOR LENDING
Sen Smt. Minati

Will the Minister of FINANCE be pleased to state:

(a) whether Reserve Bank of India is slowly phasing out indirect investments made by the banks to meet their priority sector targets;

(b) if so, the details thereof;

(c) whether Reserve Bank of India have issued a circular stating that fresh investments made by the banks in venture capitalists on or after July 1, 2005; investments made in Rural Electrification Corporation by 2006 and investments in NABARD bonds by 2007 will not be able to priority sector lending; and

(d) if so, the details thereof?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S. S. PALANIMANICKAM)

(a) & (b): The Reserve Bank of India (RBI) has reported that with a view to rationalizing the banks investments under priority sector lending and encouraging banks to increasingly lend directly to the farmers/other priority sector borrowers, all scheduled commercial banks (including Regional Rural Banks (RRBs) have since been advised that:

(i) the extant guidelines in respect of classifying the investments by banks in the bonds issued by the specified institutions as under priority sector lending may continue up to March 31st, 2005.

(ii) the investments that may be made by the banks on or after April 1, 2005 in the bonds issued by the specified institutions (except NABARD), i.e. REC, SFCs, SIDCs, SIDBI, NSIC, NHB & HUDCO shall not be eligible for classification under priority sector fending.

(iii) the investments, which have already been made/to be made by banks up to March 31`, 2005 in the special bonds issued by the above specified institutions (except NABARD) shall not be eligible for classification under priority sector lending with effect Horn April 1,2006 and

(iv) the investments in the special bonds issued by NABARD shall not be eligible for classification under priority sector lending with effect from April 1, 2007.

(c) & (d): On a review of the recent developments, including overall credit growth and growth of investments in venture capital vis-a-vis other sectors, RBI has advised all scheduled commercial banks (including RRBs)vide their circular of July 1`, 2005 that:

(i) the fresh investments that may be made by banks on or after July 1,2005 in venture capital shall not be eligible for classification under priority sector lending; and that

(ii) the investments, which have already been made/to be made by banks up to June 30, 2005, in venture capital shall not be eligible for classification under priority sector lending with effect from April 1,2006.